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September 10, 1996

Mr. William F. Caton
Acting Secretary
Federal Communications Commission
1919 M Street, NW, Room 222
Washington, D. C. 20554

RECEIVED
SEP 10 1996
FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF SECRETARY

Re: Ex Parte Presentation - CC Docket 96-45
Federal - State Joint Board on Universal Service

Dear Mr. Caton:

On Tuesday, September 10, 1996, Mr. J. Lubin, Mr. M. Lemler, Mr. P. Malandrakis and I met with Mr. J. Schlichting, Mr. D. Sieradzki, Mr. A. Goldschmidt, Mr. R. Lerner, Ms. K. Schroder, Mr. D. Slotten, Mr. S. Spaeth and Mr. B. Wimmer, of the Competitive Pricing Division of the Common Carrier Bureau to discuss AT&T's proposal for Universal Service and Access Reform. The attached material was used as the basis for the presentation.

In accordance with Section 1.1206(a)(1) of the Commission's Rules, two (2) copies of this Notice are being filed with the Secretary of the FCC.

Sincerely,

Bruce K Cox

Attachment

cc: Mr. J. Schlichting
Mr. A. Goldschmidt
Ms. K. Schroder
Mr. S. Spaeth

Mr. D. Sieradzki
Mr. R. Lerner
Mr. D. Slotten
Mr. B. Wimmer

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LbK/COX

OK



AT&T PROPOSAL
FOR UNIVERSAL SERVICE and ACCESS REFORM

September 10, 1996

UNIVERSAL SERVICE and ACCESS REFORM ARE INTEGRALLY LINKED

Universal Service Principles (*Section 254*)

- Universal service subsidies should be based on same TELRIC standard as unbundled network elements
- All telecommunications service providers contribute to universal service support in an equitable and nondiscriminatory manner
- Universal service support should be explicit and sufficient for intended purpose
- Any carrier designated as eligible would be entitled to universal service support
 - Competitive LECs (CLECs) who buy/lease unbundled network elements from Incumbent LECs (ILECs) should be eligible

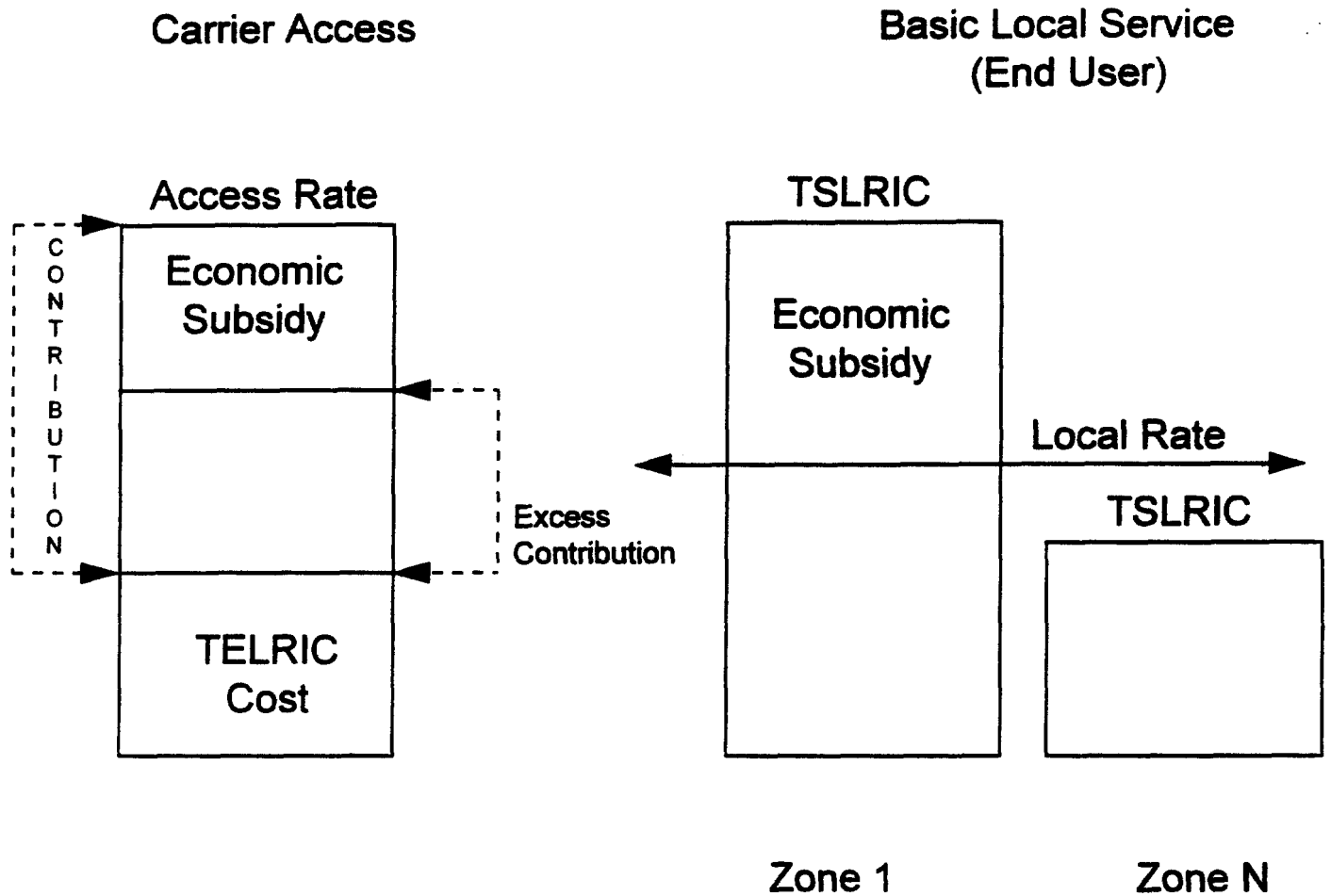
Access Reform Principles

- Access Charge and Section 251 structures must converge
- Contributions must be removed from all carrier-to-carrier payments
 - Access charge is another form of carrier-to-carrier payments

ELEMENTS OF THE NEW UNIVERSAL SERVICE FUND

- Large Local Exchange Companies:
 - ♦ National Universal Service Fund (NUSF)
 - ♦ State Universal Service Fund (SUSF)
- Small Rural Local Exchange Companies:
 - ♦ NUSF
- Low Income/LifeLine Assistance Subsidy:
 - ♦ NUSF
- Schools, Libraries and Rural Healthcare:
 - ♦ NUSF
- Competitively Neutral Collection and Distribution of the Fund

Paradigm Change



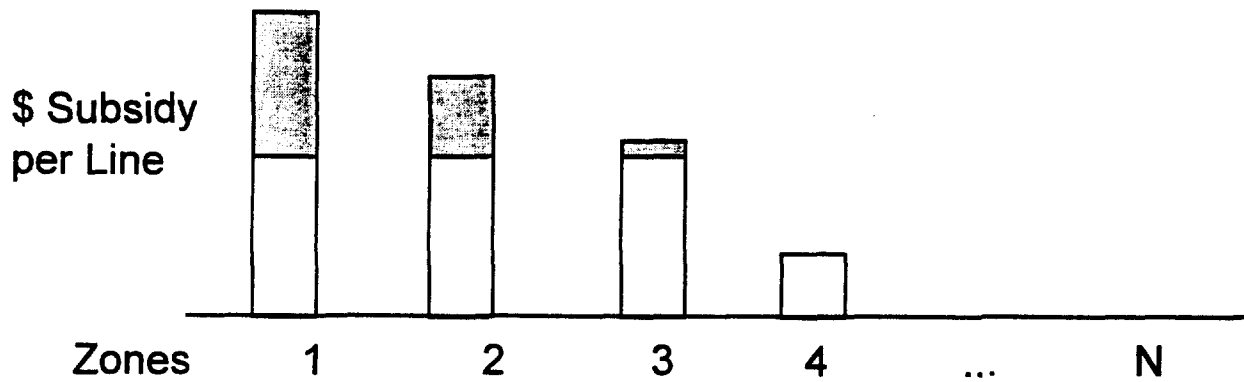
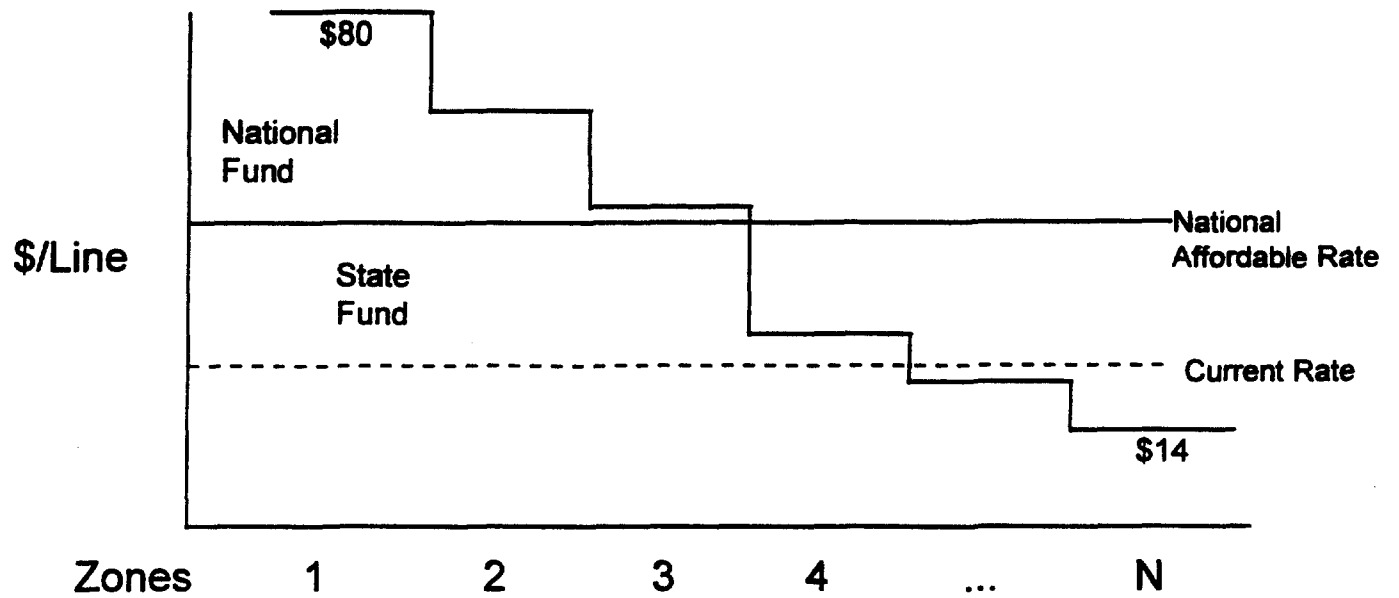
**There is a direct linkage between the
 TELRIC prices of the unbundled network
 elements and the subsidy per line which
 determines the size of the fund.
 (Illustrative)**

UNE*: LOOP (Zones) 1 to N	SWITCH End Office	TRANSMISSION	SWITCH Tandem
TELRIC \$75....\$9	.2 ¢ - .4 ¢	.25 ¢	.15 ¢

TSLRIC of Local Service	=	zone 1...zone N
Line:		\$75. \$ 9.
Port:		
Switch Usage:		\$ 3. \$ 3.
Transmission:		
Signaling:		
SUBTOTAL		\$78. \$ 12.
Retail End User Cost		<u>2.</u> <u>2.</u>
TOTAL		<u>\$80.</u> <u>\$14.</u>

* UNE: Unbundled Network Element

Determination of the Universal Service Fund from the TSLRIC of Local Service



From National Fund



From State Fund

USE LARGE LEC ACCESS RATES AS BENCHMARKS FOR SETTING RATES FOR SMALL RURAL CARRIERS

When calculating the new universal service fund for small rural LECs...

- Access rates should be based on the rates of the large company in the state or region
- Any incremental subsidy required to meet the rural carrier's revenue needs should be provided through the new NUSF mechanism
- Subsidy need not be portable in small rural company territory initially

DETERMINING THE SIZE OF THE SUBSIDY **FOR LOW INCOME SUBSCRIBERS**

- To ensure that those truly in need receive assistance, each state should:
 - ♦ Establish a maximum income threshold that initially determines eligibility
 - ♦ Identify one or more assistance programs that subscribers must currently participate
- Calculating Low Income (LifeLine Assistance) Subsidy:
 - ♦ Subsidy is difference between State Commissions determined basic local service rate minus Lifeline Assistance rate

Current Rate -----
LifeLine Assistance _____
Rate
} = NUSF

RECOMMENDED COMPETITIVELY NEUTRAL TREATMENT OF ACCESS CONTRIBUTION

*Access contribution** consists of Economic Subsidy and Excess Contribution
Economic subsidy = TSLRIC minus Basic Local Service Rate

Treatment of Economic Subsidy:

- Let prices match TSLRIC costs
- Subsidize only subscribers who are needy relative to the cost of serving them
 - No need to subsidize subscribers living in Aspen
- Competitively neutral treatment of remaining subsidies
 - Portability to any serving carrier
 - Funded through surcharges on retail revenues

* Access revenues above TELRIC

Summary of Results (Hatfield Estimates)

	<u>RBOC</u>	<u>Large LECs</u>	<u>Total</u>	<u>Small Rural LECs</u>
<u>Access Difference</u>				
1 Current Access \emptyset Rate per min.	2.70 cents	4.41 cents	3.06 cents	6.00 cents+
2 TELRIC Access Rate per min.	.40 cents	.40 cents	.40 cents	.40 cents
	Billions	Billions	Billions	Billions
3 Access Contribution: (L1 - L2) X min.	\$10.21	\$4.81	\$15.02	
<u>Economic Subsidy</u>				
4 National Fund	\$1.84	\$1.49	\$3.33	\$1.82*
5 State Fund	\$0.95	\$0.84	\$1.79	
6 Lifeline	\$0.12	\$0.02	\$0.14	
7 Subtotal ** (L4+L5+L6)	\$2.91	\$2.35	\$5.26	\$1.82
8 Excess Contribution*** (L3-L7)	\$7.30	\$2.46	\$9.76	0

\emptyset This represents the average interstate/intrastate access rate.

* This includes the current HCF for small rural LECs.

** Schools/Libraries would require additional funds to the USF.

*** This could be partly offset by applying TELRIC access prices to ESP.

Summary of Results (Proxy Estimates)

	<u>RBOC</u>	<u>Large LECs</u>	<u>Total</u>	<u>Small Rural LECs</u>
<u>Access Difference</u>				
1 Current Access ^ø Rate per min.	2.70 cents	4.41 cents	3.06 cents	6.0 cents+
2 Proxy Access Rate per min.	.63 cents	.63 cents	.63 cents	.63 cents
	Billions	Billions	Billions	Billions
3 Access Contribution: (L1 - L2) X min.	\$9.17	\$4.16	\$13.33	
<u>Economic Subsidy</u>				
4 National Fund	\$2.20	\$1.93	\$4.13	\$1.70*
5 State Fund	\$1.17	\$0.88	\$2.05	
6 Lifeline	\$0.12	\$0.02	\$0.14	
7 Subtotal ** (L4+L5+L6)	\$3.49	\$2.83	\$6.32	\$1.70
8 <u>Excess Contribution***</u> (L3-L7)	\$5.68	\$1.33	\$7.01	0

ø This represents the average interstate/intrastate access rate.

* This includes the current HCF for small rural LECs.

** Schools/Libraries would require additional funds to the USF.

*** This could be partly offset by applying TELRIC access prices to ESP.

CLOSING THE GAP BETWEEN INTERSTATE CARRIER ACCESS CHARGES AND COST-BASED CHARGES

GAP

$\$7.01\text{B} \times .80 - \1.0B(ESP)

\$4.6 B

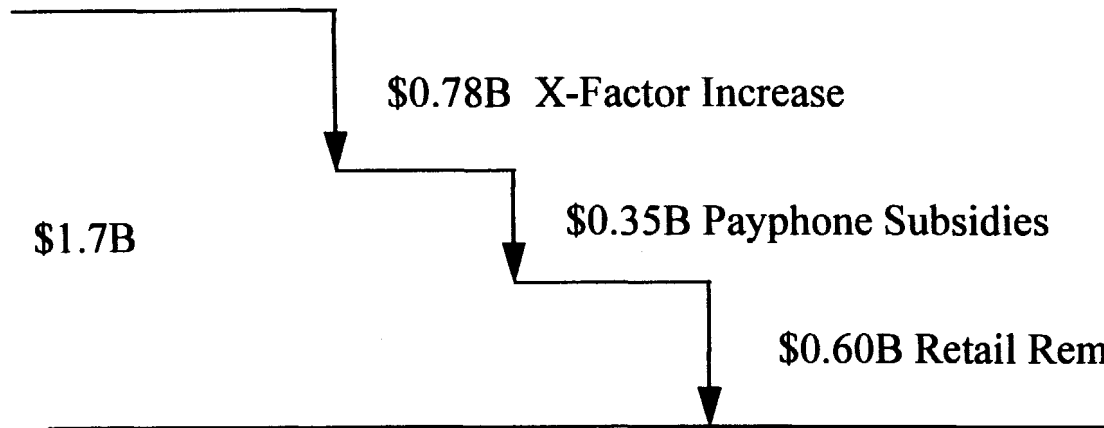
\$0.78B X-Factor Increase

\$1.7B

\$0.35B Payphone Subsidies

\$0.60B Retail Removed

\$2.9B



CLOSING THE GAP BETWEEN INTERSTATE CARRIER ACCESS CHARGES AND COST-BASED CHARGES

GAP

$\$7.01\text{B} \times .80 - \$1.0\text{B}(\text{ESP})$

\$4.6 B

\$0.73B X-Factor Increase

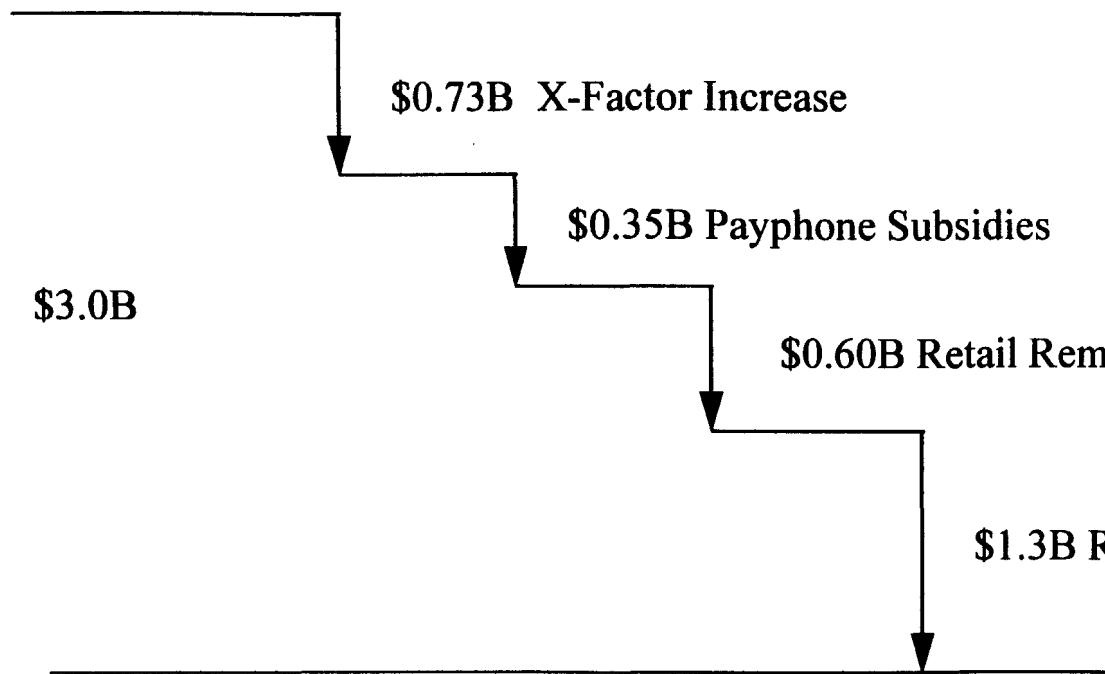
\$0.35B Payphone Subsidies

\$0.60B Retail Removed

\$1.3B Reinitialization to 11.25%

\$3.0B

\$1.6B



CLOSING THE GAP BETWEEN INTERSTATE CARRIER ACCESS CHARGES AND COST-BASED CHARGES

GAP

$\$7.01\text{B} \times .80 - \$1.0\text{B}(\text{ESP})$

\$4.6 B

\$0.71B X-Factor Increase

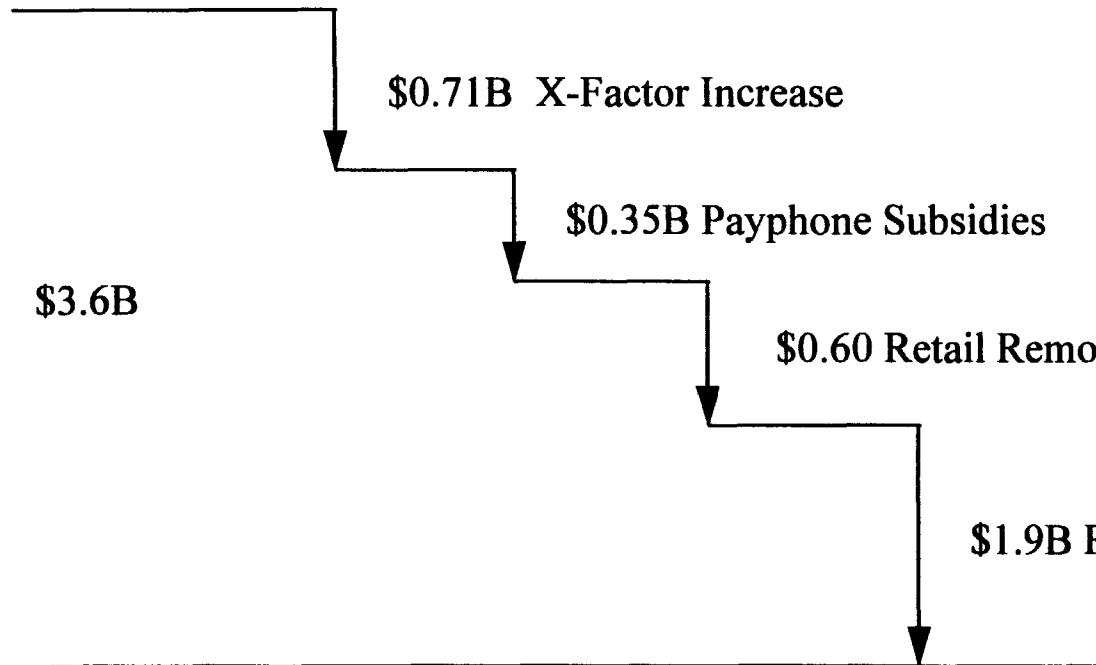
\$0.35B Payphone Subsidies

\$0.60 Retail Removed

\$1.9B Reinitialization to 10%

\$3.6B

\$1.0B



CLOSING THE GAP BETWEEN INTERSTATE CARRIER ACCESS CHARGES AND COST-BASED CHARGES

GAP

$\$9.76 \times .80 - 1.0(\text{ESP})$

\$6.8B

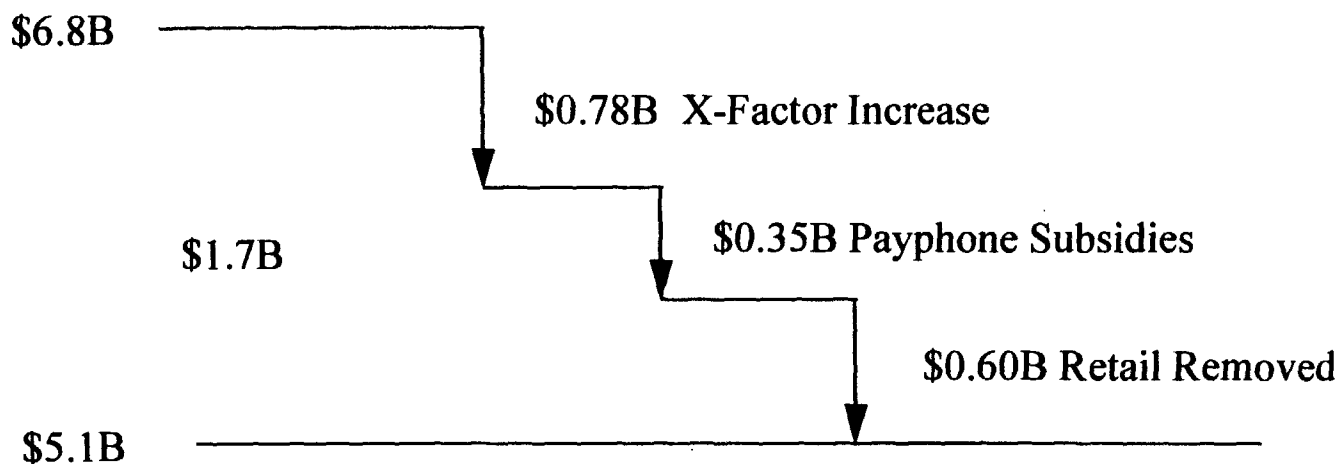
\$0.78B X-Factor Increase

\$1.7B

\$0.35B Payphone Subsidies

\$0.60B Retail Removed

\$5.1B



CLOSING THE GAP BETWEEN INTERSTATE CARRIER ACCESS CHARGES AND COST-BASED CHARGES

GAP

$\$9.76 \times .80 - 1.0(\text{ESP})$

\$6.8 B

\$0.73B X-Factor Increase

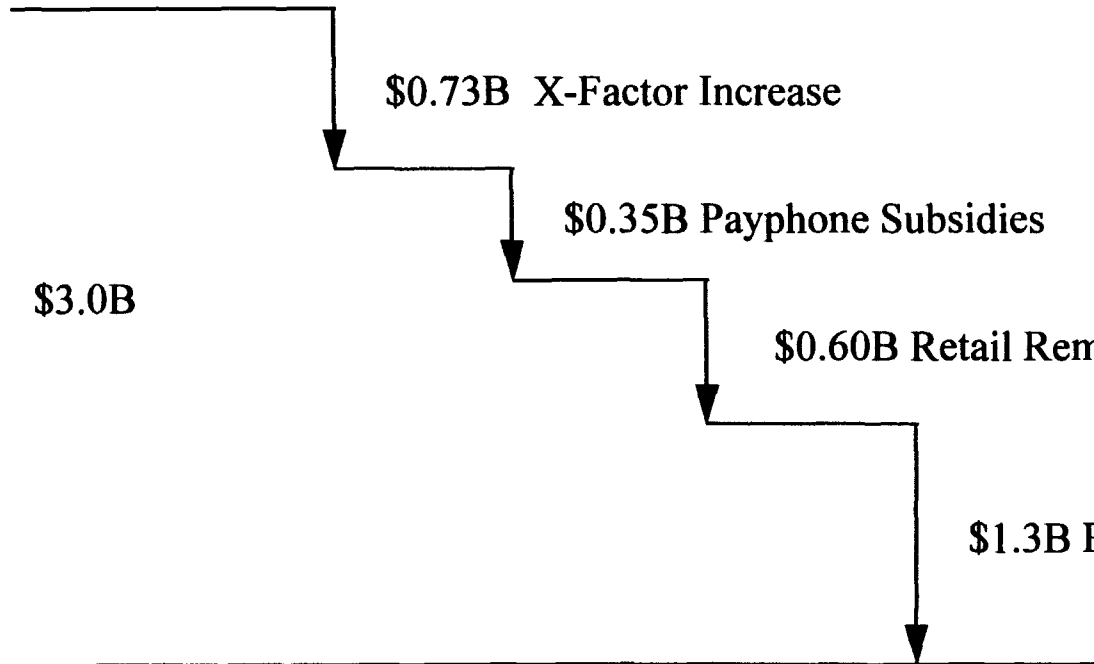
\$0.35B Payphone Subsidies

\$0.60B Retail Removed

\$1.3B Reinitialization to 11.25%

\$3.0B

\$3.8B



CLOSING THE GAP BETWEEN INTERSTATE CARRIER ACCESS CHARGES AND COST-BASED CHARGES

GAP

$\$9.76 \times .80 - 1.0(\text{ESP})$

\$6.8 B

\$0.71B X-Factor Increase

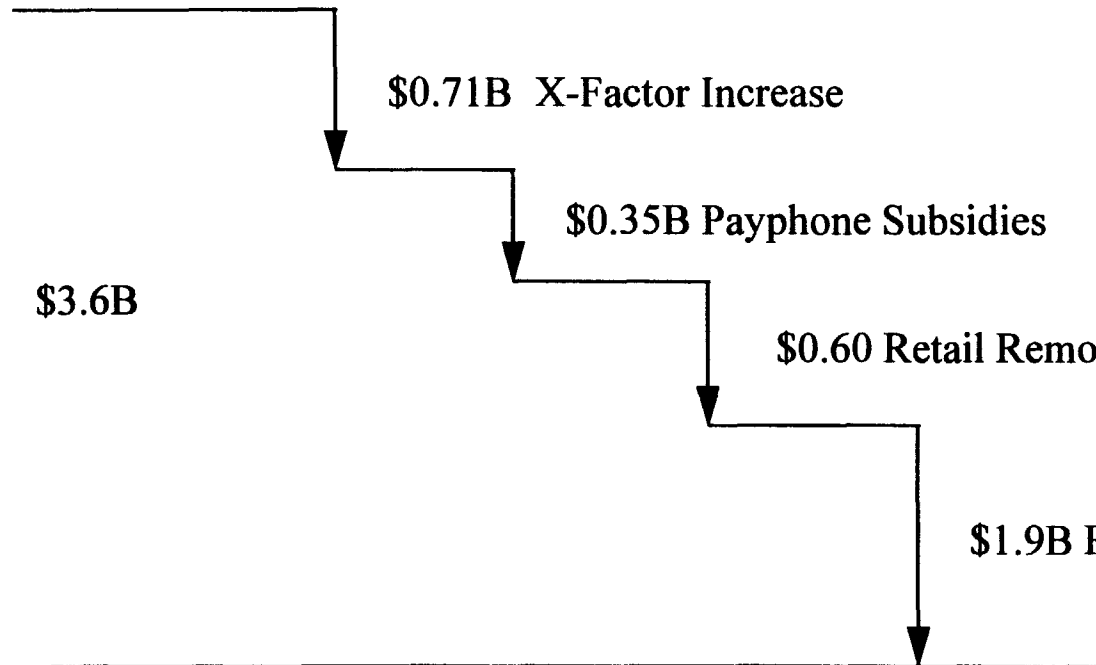
\$0.35B Payphone Subsidies

\$0.60 Retail Removed

\$1.9B Reinitialization to 10%

\$3.6B

\$3.2B



PRICE CAP COMPANIES-1996 FORM 492 RESULTS

COMPANY	REVENUE	EXP/TAX	NET RETURN	ANI	R/R	RETURN@ 11.25%	EXCESS	RETURN@ 10.00%	EXCESS
AMERITECH	\$2,314,807	\$1,795,638	\$519,169	\$3,083,308	16.78%	\$347,997	\$258,351	\$308,331	\$317,837
BELL ATLANTIC	\$2,978,629	\$2,371,885	\$606,964	\$4,420,570	13.73%	\$497,314	\$186,138	\$442,057	\$249,859
BELLSOUTH	\$3,341,890	\$2,613,046	\$728,844	\$4,627,473	15.75%	\$520,591	\$315,232	\$462,747	\$402,874
NYNEX	\$3,202,087	\$2,752,440	\$449,647	\$3,705,819	12.13%	\$416,905	\$49,610	\$370,582	\$119,798
PACIFIC BELL	\$1,688,700	\$1,318,024	\$370,676	\$2,451,590	15.12%	\$275,804	\$143,748	\$245,159	\$190,177
NEVADA BELL	\$53,801	\$41,483	\$12,118	\$70,221	17.28%	\$7,900	\$6,391	\$7,022	\$7,721
SOUTHWESTERN BELL	\$2,081,806	\$1,643,498	\$448,308	\$3,351,988	13.37%	\$377,098	\$107,893	\$335,189	\$171,378
USWEST	\$2,425,710	\$1,960,655	\$465,055	\$4,007,152	11.61%	\$450,805	\$21,592	\$400,715	\$97,485
ROCHESTER	\$47,621	\$35,368	\$12,255	\$63,432	19.32%	\$7,136	\$7,756	\$6,343	\$8,957
FRONTIER	\$25,977	\$18,731	\$7,246	\$33,083	21.90%	\$3,722	\$5,340	\$3,308	\$5,968
CENTEL-FLA	\$54,065	\$42,112	\$11,953	\$69,517	17.19%	\$7,821	\$6,261	\$6,952	\$7,578
CENTEL-ILLINOIS	\$34,895	\$28,094	\$6,801	\$34,780	19.55%	\$3,913	\$4,376	\$3,478	\$5,035
CENTEL-NEVADA	\$68,407	\$48,170	\$20,237	\$89,057	20.43%	\$11,144	\$13,777	\$9,908	\$15,853
CENTEL-NC	\$27,734	\$21,404	\$6,330	\$41,220	15.36%	\$4,837	\$2,585	\$4,122	\$3,345
CENTEL-TEXAS	\$26,584	\$19,068	\$7,508	\$34,420	21.81%	\$3,872	\$5,509	\$3,442	\$6,161
CENTEL-VIRGINIA	\$41,230	\$31,800	\$9,430	\$59,409	15.87%	\$6,684	\$4,161	\$5,941	\$5,287
UNITED-FLA	\$215,011	\$158,541	\$56,470	\$283,871	19.22%	\$33,060	\$35,489	\$29,387	\$41,035
UNITED-INDIANA	\$36,139	\$28,575	\$7,564	\$37,214	20.33%	\$4,187	\$5,117	\$3,721	\$5,822
UNITED-MIDWEST	\$128,078	\$94,486	\$33,582	\$171,399	19.59%	\$19,282	\$21,666	\$17,140	\$24,912
UNITED-NJ/PA	\$72,606	\$56,546	\$16,060	\$98,081	16.37%	\$11,034	\$7,615	\$9,808	\$9,473
UNITED-NC	\$143,407	\$110,797	\$32,610	\$183,533	17.77%	\$20,647	\$16,125	\$18,353	\$21,601
UNITED-OHIO	\$87,127	\$71,097	\$16,030	\$100,597	15.93%	\$11,317	\$7,141	\$10,060	\$9,048
UNITED-NORTHWEST	\$33,613	\$22,349	\$11,264	\$32,914	34.22%	\$3,703	\$11,456	\$3,291	\$12,060
UNITED-SOUTHEAST	\$59,729	\$44,536	\$15,193	\$79,734	19.05%	\$8,970	\$9,429	\$7,973	\$10,939
SPRINT LOCAL	\$1,028,835	\$777,603	\$251,032	\$1,335,746	18.79%	\$150,271	\$152,668	\$133,575	\$177,966
SNET	\$332,014	\$276,732	\$55,282	\$477,342	11.58%	\$53,701	\$2,395	\$47,734	\$11,436
GTE			\$534,918	\$4,430,273	12.07%	\$488,406	\$55,322	\$443,027	\$139,228
TOTAL			\$4,461,314	\$32,067,995	13.91%	\$3,607,649	\$1,293,431	\$3,206,800	\$1,900,780